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SUBJECT: DEMARCHE REQUEST: U.S. OBJECTIVES FOR THE AD-HOC
LIAISON COMMITTEE MEETING, JUNE 8

¶1. This is an action request. Please see paragraph 3.

¶2. Summary: The Department requests that action addresses inform appropriate government officials of USG support for the June 8 meeting in Oslo of the Ad Hoc Liaison Committee (AHLC), the principal policy-level coordinating mechanism for donor assistance to the Palestinian Authority (PA). Despite billions pledged at the March 2 donors' conference in Sharm al-Sheikh, direct budget support for the PA in 2009 has failed to meet the PA's need and, as a result, the PA faces acute deficits that threaten its political and financial viability. The U.S. will use the AHLC to: emphasize the need for donors to provide immediate budgetary support for the PA; outline practical ways for donors and the parties to encourage economic growth by developing the Palestinian private sector; encourage increased access for goods into Gaza to support early recovery efforts; and stress the need for donors to develop assistance in coordination with the PA's Palestinian Reform and Development Plan (PRDP) and plan for Gaza recovery. End summary.

¶3. Action Request: The Department asks that Posts seek meetings with the appropriate host country officials to convey the objectives outlined below.

¶4. Objectives:

-- Emphasize that the US supports Norwegian efforts to convene the AHLC at this time. The meeting will be an important opportunity for donors to demonstrate support for the new PA government and encourage concrete measures to improve Palestinian livelihoods.

-- Note that the US supports the idea of a sub-Ministerial meeting, and encourages governments to send experts who are prepared to discuss concrete ways to meet the PA's financial needs and develop the Palestinian economy.

-- Share the primary USG goals for the AHLC: mobilize direct budget assistance for the PA; focus donors on supporting the PRDP and the PA's plan for Gaza recovery; and identify

practical means to overcome obstacles to the effective delivery of donor assistance and Palestinian economic growth.

-- Emphasize the need to provide immediate budget assistance to the PA to meet a monthly recurring deficit of approximately \$120 million. Note that the U.S. is working with Congress to secure approval for \$200 million in budget support that was part of pledge made by the Secretary at Sharm al-Sheikh.

-- Stress that the AHLC's focus is coordinating donors to address economic and financial issues. The AHLC is not a forum for discussing political issues that are the subject of negotiations.

-- Convey that the Administration and Senator Mitchell remain deeply engaged on the political track to foster the conditions for a two-state solution to the Israeli-Palestinian conflict as part of a comprehensive regional peace.

¶5. Posts should report initial host country responses by June ¶5. Please contact Andrew Lentz, Desk Officer for Palestinian Economic Affairs, by email at lentzan@state.gov if you have any questions or requests for additional background.

Background

¶6. Norway, as chair of the AHLC, has called for a meeting at the "high official level." Tom Goldberger, Director of the Office of Israel and Palestinian Affairs in the NEA Bureau, is leading the U.S. delegation to the AHLC. The delegation will be comprised of representatives from State, USAID, and the Department of the Treasury. The intention of this AHLC is to provide subject matter experts from the donor community, the Palestinian Authority and the Government of Israel (GOI) with the opportunity to engage in substantive discussions about ways to facilitate the effective coordination and delivery of donor assistance. PA Prime Minister Salam Fayyad is expected to address the meeting but not participate in the proceedings.

¶7. The AHLC is intended to provide a forum for dialogue among major donors, the PA, the GOI, IFIs, and the UN regarding assistance activities that promote Palestinian economic development. As a donor coordinating mechanism, the AHLC promotes assistance efforts of individual donors, reviews pledges made by individual donors, and monitors developments in the Palestinian economy as a whole. The AHLC is not a venue for the discussion of political or final status issues.

¶8. The U.S. will use the AHLC to emphasize the need for donors to provide immediate budgetary assistance to the PA. The PA faces a severe budget crisis as donors have failed to meet the PA's needs during the first four months of 2009. Absent increased flows of assistance over the next few months, the PA will risk defaulting on its obligations. The PA already is unable to fund government operations, putting at risk reform efforts, security operations, and institutional development. The PA has accumulated millions in bank debt to help cover its deficits, accrued more than \$30 million in arrears to private sector providers, and, in one instance, postponed the payment of civil servant salaries by two weeks. The Administration has requested \$200 million in the 2009 Supplemental for direct budget support. We are encouraging donors to frontload their assistance until ours is ready.

¶9. The U.S. also will emphasize the need to support the PA's priorities for economic development and private sector growth in the West Bank and Gaza. Donors pledged \$7.7 billion for three years (2008-2010) in support of the PRDP and West Bank development at the 2007 Paris Donors' Conference; donors pledged more than \$4.8 billion (including recommitments of Paris pledges) at the March 2, 2009 donors' conference in Sharm al-Sheikh for both the development of both the West Bank and Gaza. Most of this assistance has not yet

materialized, however.

¶10. The West Bank economy remains hobbled due to Israeli restrictions on access and movement both within the West Bank and between the West Bank and Israel. While there have been some removal of checkpoints and roadblocks, the overall web of restrictions stifles private sector development. The USG has initiated a number of programs to stimulate private sector growth, such as a loan guarantee program for small business development, but restrictions on imports/exports and impediments to the movement of goods and people continue to impede development of most sectors. The reconstruction of Gaza depends upon a stable ceasefire, the stopping of smuggling and the firing of rockets into Israel, as well as the loosening of restrictions on access and movement. The U.S. does not intend to use the AHLC to present a laundry list of obstacles and hurdles to development, however, and encourages other AHLC members to follow our lead. Instead, the U.S. hopes to focus donors and the parties on concrete measures to support initiatives that will spur private sector growth and fulfill priorities in the PRDP and Gaza recovery plan.

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